FISCAL NOTE

Bill #:	HB0535	**Title:**	Revise taxation of stripper well production
Primary Sponsor:	Jones, L	**Status:**	Second Reading

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$0.00	$0.00
Revenue:		
General Fund	($357,789)	($278,167)
State Special Revenue	($38,785)	($30,154)
Net Impact on General Fund Balance:	($357,789)	($278,167)

☒	Significant Local Gov. Impact	☒	Technical Concerns
☐	Included in the Executive Budget	☒	Significant Long-Term Impacts
☐	Dedicated Revenue Form Attached	☐	Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. This bill, if passed would become effective July 1, 2005, and would apply to oil produced and sold after June 30, 2005.
2. This bill would change the oil and gas production tax treatment of the working interest share of the value of oil from wells that produce less than 3 barrels of oil per day (stripper well exemption production).
3. The taxation of the royalty (non-working) share and the tax that is levied to fund the operations of the Board of Oil and Gas Conservation are not affected. The taxation of natural gas is not affected. The taxation of other categories of oil production is not affected. (See technical note.)
4. This bill would create a new term: "stripper well bonus production". "Stripper well bonus production" is defined to mean the same as a term currently in the law: "stripper well exemption production". Both are defined as "petroleum and other mineral or crude oil produced by a stripper well that produces 3 barrels a day or less".
5. Under current law, stripper well exemption production is taxed at 0.5% if the price of West Texas Intermediate crude oil (WTI price) as reported in the Wall Street Journal during a calendar quarter is less than $38 per barrel. If the WTI price is greater than $38 per barrel, the tax rate is the same as for primary production oil, 12.5% for pre-1999 wells and 9% for post-1999 wells.

6. Under the proposed law, if the WTI price is less than $38 per barrel, stripper well exemption production is taxed at 0.5%, the same as under current law. If the WTI price is greater than $38 per barrel, stripper well exemption production is taxed at 6%.
7. It is assumed that the WTI price will stay above $38 per barrel through FY 2007.
8. The percentage of stripper exemption wells that are pre-1999 is assumed to be 98.64%. This number was determined from a four-year average taken from tax return data. Using this number, the tax rate for stripper exemption class wells under assumption 7 and current law is 12.45% (12.50% X 98.64% + 9.00% X 1.36%).
9. Table 1 shows the projected working interest share of the oil and natural gas production tax on oil from wells producing less than 3 barrels per day in FY 2006 and FY 2007. Projections are made under current and proposed law.

Table 1
Projected Tax on Working Share of Oil from Wells Producing Less than 3 Barrels per Day

	----------------FY 2006---------------			----------------FY 2007----------------		
Working Interest	Current	Proposed	Difference	Current	Proposed	Difference
Production (barrels)	464,538	464,538	0	392,490	392,490	0
Gross Value	$14,307,505	$14,307,505	0	$11,123,525	$11,123,525	0
Working Interest Value	$12,243,084	$12,243,084	0	$9,518,519	$9,518,519	0
Tax Rate	12.45%	6.00%	-6.45%	12.45%	6.00%	-6.45%
Working Interest Tax	$ 1,524,573	$734,585	($789,987)	$ 1,185,295	$571,111	($614,184)

10. Table 2 shows the statutory allocation of the oil and natural gas production tax.

Table 2
Allocation of Oil and Natural Gas Production Tax

Entity	Share of Tax
Counties for County Government and Schools	fixed percentage for each county, average 49.8%
Coal Bed Methane Protection Account	1.23% of remainder after county allocation
Reclamation and Development Grants Account	2.95% of remainder after county allocation
Orphan Share Account	2.95% of remainder after county allocation
University System	2.65% of remainder after county allocation
General Fund	remainder (42.9% on average)

11. Table 3 shows the projected distribution of the oil and natural gas production tax collections in FY 2006, and FY 2007 under current and proposed law.

Table 3
Distribution of Tax on Working Share of Oil Wells Producing less than 3 Barrels per Day

	FY 2006			FY 2007		
Entity	Current	Proposed	Difference	Current	Proposed	Difference
Counties for County Government and Schools	$759,237	$365,823	($393,414)	$590,277	$284,413	($305,864)
Coal Bed Methane Protection Account	$9,414	$4,536	($4,878)	$7,319	$3,526	($3,792)
Reclamation and Development Grants Account	$22,577	$10,878	($11,699)	$17,553	$8,458	($9,095)
Orphan Share Account	$22,577	$10,878	($11,699)	$17,553	$8,458	($9,095)
University System	$20,281	$9,772	($10,509)	$15,768	$7,597	($8,170)
General Fund	$690,486	$332,697	($357,789)	$536,826	$258,659	($278,167)
Total	$1,524,573	$734,585	($789,987)	$1,185,295	$571,111	($614,184)

12. There may be a small general fund impact to school guaranteed tax base aid costs in the Office of Public Instruction, but this cost is not estimated.

13. This bill will have no administrative impact on the department of revenue.

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
Revenues:		
General Fund (01)	($357,789)	($278,167)
State Special Revenue (02)		
Coal Bed Methane Protection Account	(4,878)	($3,792)
Reclamation and Development Grants Account	($11,699)	($9,095)
Orphan Share Account	($11,699)	($9,095)
University System	($10,509)	($8,170)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	($357,789)	($278,167)
State Special Revenue (02)	($38,785)	($30,154)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
This bill will cause reductions in revenues from the oil and gas production tax received by the counties and other local entities. Estimated losses in FY 2006 and FY 2007 are $393,414 and $305,864, respectively.

LONG-RANGE IMPACTS:
This bill will cause significant reductions to general fund revenues whenever the WTI price is above $38 per barrel.

TECHNICAL NOTES:
1. Page 4, lines 16 and 17, defines “stripper well bonus” to be oil from stripper wells producing less than 3 barrels a day. Page 4, line 3, defines stripper oil as oil produced from any well producing between 3 and 15 barrels of oil a day in the previous calendar year. Stripper wells are not well defined.